

ROMANIAN SAFETY AND SECURITY MARKET

Romania at a Glance:

Population (in millions)	Area (1,000 sq km)	Inhabitants (Per sq km)	Private Entrepreneurs (in millions)	Working Population (in millions)	GDP (in billions of USD)	Export Balance (in billions of USD)
22.3	237.5	93.9	0.4	9.9	169.3	+21.9

Market Summary

- ☞ The economic growth experienced by Romania during the last 10 years has had a significant impact on the market demand for security equipment and services in the nation.
- ☞ The transition to a market-oriented economy has fueled construction and increased personal property ownership.
- ☞ Key players in constructing new buildings for office space, expanding retail, and hotels come from the private sector, especially foreign real estate investment and international retail chains.
- ☞ Security is a growing concern for government and public owned companies, but investment is still at a low level in this areas.
- ☞ Due to requirements imposed by NATO and EU integration, as well as new international and domestic regulations, attention to sectors like transport (especially air and seaport security), energy (nuclear, thermal and hydro) and military is expected to grow in the following years.
- ☞ Both the growing market base and increased property risk have created a corresponding increase in the need for security products.

A. MARKET OVERVIEW AND BEST SALES PROSPECTS¹

The value of the safety and security market is estimated to be in the area of USD100 to 150 million, with an expected annual growth rate of 15-20%. The number of international companies, banks and financial institutions in Romania has increased significantly in the last decade, resulting in an increase in the demand for security services. In response to this demand, there are currently 3000-registered security companies, 850 of which are surveillance and service providers, and 774 are providers of specific equipment; the remainders apparently are not really operating in the market.

¹ Official statistics on the safety and security market are not available in Romania. Numbers given in this report are best estimates by trade professionals.

Of the active security companies operating in Romania, most are performing only one activity: security services, equipment installation, maintenance or system design. About 11% are able to perform several activities, predominately being involved in design, installation and maintenance of security systems. Only 2% perform manufacturing activities, resulting in an insignificant national production.

Among the best-known integrators (companies authorized to carry out all 5 types of activities, ie, security services, production, design, equipment installation and maintenance) are UTI Group and Romano Electro International.

The most commonly traded products on the Romanian market are fire detection and extinguishing systems, antitheft and anti-intrusion systems, surveillance systems, access control systems, alarm and detection monitoring systems, and control and monitoring systems.

Trade professionals estimate that there are more than 50,000 alarm systems in operation in the country, in both the public and private sectors. Many of them are connected, either by radio or telephone, to private Central Station companies, or to the police.

Corporate, banking and retail security systems as well as most government and industrial security installations are usually also attended by various categories of personnel, including private guard companies, public guardians, national gendarmerie, or local police. The majority of homes, small businesses and shops are under-protected; they have no security equipment, and use only basic mechanical protection, i.e. steel bars or padlocks.

Auto theft is another growing segment of the security market, but it is currently concentrated in Bucharest, which, in addition to being the capital city and largest urban center, also has the largest incidence of auto theft and burglary. Security equipment is mandatory when contracting car insurance in Romania. Recently, GPS (Global Positioning System) vehicle tracking services became available from several local manufacturers and service providers.

The following types of products represent the best sales *prospects* for the safety and security market.

- ③ **Alarm systems connected to radio or telephone** for single-family houses in residential areas and for small and medium-sized businesses;
- ③ **Car alarm and monitoring** systems;
- ③ **Global monitoring and access control** equipment for office buildings, financial institutions, shopping centers and hotels;
- ③ **Training books and publications** on security, fire and information protection for trade professionals and end-users;
- ③ **Training and education services** for security professionals.

B. MARKET PLAYERS

Approximately 90 percent of the domestic market is supplied by imports, but a few international manufacturers are already selling in Romania, either through distributors or their local representatives. The safety and security organizations in Romania can be divided into the following groups:

1. **Local manufacturers**, which are either independent or agents,
2. **Importers/distributors**, which may directly service the retailers and end-users,
3. **Installation companies**, which may provide full service design, sale, installation and maintenance of their equipment,
4. **Safety and security service companies**, which offer property and personal protection, transportation of money and assets, security guards, and private investigating.
5. **System integrators/solutions providers**, which target mainly large, complex government and private projects, providing local manufacturing, extensive software development and project management as key added value factors to imported products and own or subcontracted installation manpower.

1. Local production

While there are several small Romanian manufacturers offering products and simple security and access control, a larger company, *UTI Group*, is manufacturing a range of integration hardware and developing its own security management and integration software platform. In total, local production is estimated to supply 10 – 15 % of the market. Additionally, there is a local factory of Novar – ESSER from Germany, but it is operated almost exclusively on an assembly basis.

2. Imports

European products represent the majority of Romania's safety and security imports, with Germany and the UK providing the largest share. In fact, high-end German products are very popular even though they are, in most instances, more expensive than those of other origin.

High-end electronic intruder **alarm systems** are imported from Switzerland (Siemens – CERBERUS) and Germany (Novar – ESSER), while the largest foreign suppliers of medium-quality alarms are from Canada (DSC, Paradox).

Access control for the small/medium market comes mainly from DSC (Canada), whereas complex and higher-risk systems Tyco – Sensormatic, Apollo (US), CSI – TAC (now Schneider – manufactured in the US) and HIRSCH (US) are leading the market. The market leader in cards and readers is HID (US).

The **CCTV** market is divided between several Far East manufacturers. In high-end applications Tyco – Sensormatic and Pelco (US) share the market with Philips (NL) and Baxal (UK).

The majority of **safes, locks, and iron fittings** for doors used in Romania are from Israel (Mul-T-Lock) and Finland (KASO).

Fire protection products are primarily imported from Switzerland, Germany, Austria and Great Britain.

U.S. Products: Products manufactured in the United States enjoy a good reputation in Romania, but new-to-market firms should be aware of keen competition from third country suppliers.

3. Safety and Security Service Companies

Estimated number: over 50. Major companies include UTI Group, Secpral SRL, Romano Electro International, Helios Security Systems, General Security, Rolf Security, Ntt Electronic International, ICCO Systems, Helinick SRL, Siel Invest SRL, Comandor Int'l, McDouglas Jr Impex SRL, Rasirom.

4. Systems integrators/solutions providers

Estimated number: over 120. Major companies include UTI Group, Secpral SRL, Romano Electro International, Helios Security Systems, General Security, Rolf Security, Ntt Electronic International, ICCO Systems, Helinick SRL / Siel Invest SRL, Comandor Int'l, McDouglas Jr Impex SRL, Rasirom.

Major foreign companies include UTI Group, Secpral SRL, Romano Electro International, and Helios Security Systems.

C. END-USER ANALYSIS

At this stage, the safety and security market in Romania is developing and has substantial potential. There are still a large number of well-known products/companies that are not yet present on the Romanian market, and at this stage, the barriers to entry are still very low, as there is no clear hierarchy of brands, quality or prices. The main problem, however, resides in the lack of education, knowledge and clear expectations from customers. Clearly, customers are looking for a solution, but they cannot assess a product's costs and benefits, or make comparisons between offered choices. Therefore, market sales are limited by market education. On the other hand, sales are very much influenced by the people who install the systems, while the behavior of the suppliers restricts the demand-offer relationship.

Government agencies, banks and other financial institutions are prime purchasers of safety and security equipment and services, and typically procure products and services through public tender invitations. In contrast, the private sector generally prefers closed-tender invitations or open market purchasing. The main differential among bidders is the price, which represents 60 to 80 percent of purchasing criteria, compared to 20 to 40 percent for technical, warranty and other quality criteria. Obviously, only technically compliant bids are accepted, but bid specs are not always clear or concise. Although many government agencies are limited by budget constraints, improved fire and protective services are a primary objective of the Romanian government.

Expanding shopping centers/retail networks are major purchasers of modern loss prevention, anti-shoplifting and surveillance equipment, whereas residential builders and renovators, and most small businesses are becoming increasingly aware of security precautions and purchasing alarm equipment.

Other groups of major end-users for security equipment are hotels, public buildings, warehouses and storage facilities.

Insurance companies are not very coherent in their policy of discounts based on existence and compliance of mechanical and electronic security measures.

Military, law enforcement agencies, airports, and naval ports are also dominant end-users.

Romania is the beneficiary of a recent TDA grant of USD 550,000 to draft a Feasibility Study for the Civil Aviation Security Master Plan (due in September 2004), the objective of which is to assess the security equipment needs of all 17 Romanian airports.

D. MARKET ACCESS

The market's main characteristic is the general trend to sell inexpensive products to people with low income and low knowledge of the market, and branded products to people with more money and knowledge. Barriers can be surmounted more rapidly with the joint effort of firms, which can work at a national level (and which have at least 30% of the market).

D.1 Insurance - security systems relationship

Romanian legislation does not specify a direct correlation between the cost of insurance and the existence or type of security system. In many Western countries, the insurance premium varies according to the quality and complexity of the security system installed in the respective building or vehicle.

The establishment of such a correlation and the adoption of such standards would represent an incentive for market growth, taking into consideration the fact that insurance is more popular than security systems. Security systems could therefore become a complementary product to an insurance policy. Installing good quality security systems will become a must-do for contracting insurance of a certain value and at a lower premium. This approach could eliminate from the market those companies, which sell no-name products, and could elevate the overall quality of products on the market.

D.2 Other market-specific barriers

The absence of a viable professional association, which could solve issues common to all the players on the market and lobby governmental institutions, represents an important obstacle. In 2003, the first steps toward the establishment of a professional association were made. The association will include importers, distributors, and security systems companies.

There are too many small firms, which are not aware of each other's existence, and which operate on the gray market with counterfeit and low quality products, the great majority of which are being imported from Asia.

Other than products of national security and weapons, or products qualified as weapons, there are no restrictions on importing safety and security equipment into Romania. As in most other sectors, customs duties are applied to all products imported. However, Romania has signed an agreement with the European Union (EU) resulting in lowered or eliminated tariffs on products imported from EU member nations.

Products from the United States are subject to Most Favored Nation (MFN) tariffs, and there is also a value-added tax (VAT) of 19% on most consumer products.

Key competitive factors are price, quality and after-sale support and service. It is also essential to foster the development of close relationships with Romanian representatives, distributors and integrators. In most instances, Romanian partners look to their foreign partners to provide marketing, promotion, training and financing. As in most other countries, all products imported to Romania must be tested by the relevant organizations.

D. FUTURE PROSPECTS OF THE ROMANIAN SAFETY AND SECURITY MARKET

The safety and security market in Romania is forecasted to expand 15-20% percent per year.

The market for U.S. safety and security equipment should continue to increase, as Romania upgrades security at seaports, airports, major manufacturing plants and other critical infrastructure facilities. Security equipment, and other equipment and technology will also be needed as Romania begins preparing for its new position as the south-eastern border of the European Union when it is accepted for membership in 2007.

The industry sectors most concerned with safety and security issues include defense, aviation, electronics, chemical, and pharmaceutical.

Equipment with the greatest sales potential includes, airport passenger and baggage screening equipment, perimeter protection systems, access control systems including biometric identification systems, port container scanning equipment, CCTV systems, fire-fighting equipment and systems, and personal protection equipment.